# The Chartered Tax Adviser Examination

May 2018

## Awareness Module A
## VAT and Stamp Taxes

Suggested solutions

1.

As the computer has some private use the VAT which can be recovered is restricted to the 90% business use. The amount recovered will be £900 (£5,000 x 20% x 90%). 1

*Note: Candidates who mention the Lennartz approach which allows full recovery and then an output charge for private use, will gain credit.*

Cars are blocked items and so no VAT can be recovered on this purchase. 1

The VAT on the fuel can be recovered in full, despite the private use, but will then require VAT either on the fuel scale charge, or a charge to the employee, to be added to output VAT on the same return. 2

Alternatively, if detailed mileage records were kept by the employee, Jilly could reclaim VAT on the business proportion only, with no fuel scale charge being applied. 1

2.

The services to the fashion house will be B2B supplies and therefore based on the location of the customer. As this will be Italy, the supply is outside the scope of UK VAT. 2

The work for private individuals will be B2C and based on the location of the supplier. As Julie is UK VAT registered this will be a UK supply and VAT should be charged at the standard rate (assuming the clothes are all for adults). 2
(*Examiner's note – credit given for mentioning ZR children's clothing)*

In the event that Julie creates a fixed establishment in Italy she could be seen as belonging there, in which case her supplies would be outside the scope of UK VAT and she would need to register in Italy. 1

(*Examiner's note – An individual's place of belonging is their usual place of residence so unlikely that this would change in respect of a 3 month stay but potentially could if Julie takes steps to do so – e.g. setting up a business premises*)

3.

To be able to voluntary register for VAT the business must be making taxable supplies. 1

Bob is selling exempt products only so would be unable to register whereas Claire's zero-rated supplies are taxable and so she could register. 1

The main advantages of voluntary registration are: *(any three of)* 3

- Input VAT on purchases can be reclaimed
- To add credibility to the business
- Avoids any potential late registration (and therefore penalties)
- Avoids the need to check compulsory registration limits
- Can be cheaper for VAT registered customers (or increased profits for the business)

4.

The capital goods scheme (CGS) will apply to the property as the property was purchased for more than £250,000. 1*

As an option to tax was made, the sale will be standard rated and so Franko Ltd will charge VAT on the sale price at 20%. 1

There will be a normal CGS adjustment for the p/e 31.12.18 based on the taxable supplies for the period. If the taxable supplies have increased, more VAT will be recoverable but, if they have reduced, some VAT recovered in the year of purchase will need to be repaid. 1

An additional adjustment will need to be made for the remainder of the adjustment period (6 intervals) based on deemed taxable supplies of 100%. 2

**This mark can be awarded for any reference to CGS applying to the property*

5.

The relevant "flat-rate" will have been determined based on the industry in which Steven operates, and is provided by HM Revenue & Customs. 1

However, there is an exception to this for "limited cost" traders, the effect being that the rate is set at 16.5% regardless of the industry the trader works in. 1

A limited cost trader is one whose VAT inclusive expenditure on goods is either:

- Less than 2% of their VAT inclusive turnover in a prescribed accounting period; 1
- Greater than 2% of their VAT inclusive turnover but less than £1,000 per annum (pro-rated for accounting periods which are not of one year). 1

The flat rate is applied to the VAT-inclusive figure for outputs, so with standard-rated sales, the VAT paid on to HMRC will effectively be 19.8% (16.5% x (100+20)%) 1

For the first year of VAT Registration under the Flat Rate Scheme, a 1% reduction applies. 1

Max 5

6.

On cessation of trade, Edna will need to deregister for VAT purposes with effect from 1 August 2018. A final return will need to be completed. 1

If Edna sells to buyer 1 each of the items (stock/fixtures etc) will be subject to a standard-rate VAT charge as normal. Any items not sold will potentially be a deemed supply based on there being assets still held by Edna at the date of deregistration. Any VAT charged will be included on the final VAT return. 2

*Note: Credit given for mentioning the £1,000 limit*

If Edna sells the whole business to buyer 2 it may qualify as a transfer of a going concern (TOGC) which would mean the sale is outside the scope of VAT such that no VAT would need to be charged on the individual items sold. 1

As the same business will be carried on, the transfer is clearly of a going concern so the other conditions to be met are: 2

- The transferee must already be a taxable person or immediately become, as a result of the transfer, a taxable person
- There must be no significant break in the normal trading pattern

Max 5

7.

| | | |
|---|---|---|
| Total due for year ended 31 March 2018: (264,000 – (121,500 – 1,200 – 4,100)) | 147,800 | 3 |
| Payments on account already made: 138,000 x 90% | (124,200) | 1 |
| Balance due 2 months after year end = 31 May 2018 | £23,600 | 1 |

8.

As there are two parts to the supply which are potentially rated in different ways (activity is standard-rated, clothing is zero-rated) it is important to decide whether to treat the sale as a single supply or multiple supplies. 1

The leading case to refer to in determining this is the Card Protection Plan. The key matter is whether either part of the supply is merely ancillary to the main supply. 1

That is something that does not in itself constitute for customers an aim but is a means of better enjoying the principal service. 1

The purchasers receive the t shirt on the basis that they are booking the play session and as such this part of the supply would appear to be ancillary. 1

The supply should therefore be treated as a single supply and VAT charged based on the rating of the principal service at standard rate. 1

9.

Notification of an error can be made by letter to the local VAT office, or on form VAT 652.
Max 1 mark

Alternatively, under the error correction regime, certain 'small' net errors may be corrected by adjusting the next VAT return whether they had been made despite taking reasonable care or through carelessness. Deliberate errors cannot be corrected on a later return. 1

An error can be corrected within a VAT return provided the net error is less than the greater of:

(i) £10,000; or 1
(ii) 1% of turnover (subject to a maximum of £50,000). 1

The error is too big to be corrected on a subsequent return. (The error is £80,000/6 = £13,333). This exceeds £10,000, which is greater than 1% of turnover of £4,250.) 1

Consequently, this error must be corrected by letter or on form 652 1

Max 5

10.

**Output VAT**

| | | | |
|---|---|---|---|
| Item A | Sold at a loss | - | 1 |
| Item B | Profit £280 x 1/6 | 47 | 1 |
| Item C | Sale price £660 x 1/6 | 110 | 1 |

**Input VAT**

| | | | |
|---|---|---|---|
| Item C | Purchase price £400 x 20% | (80) | 1 |
| Restoration costs | £100 x 20% | (20) | 1 |

*Note: No explanations required as the question simply asks for calculations for each transaction. If candidates assumed that global accounting was made and therefore the loss would also be included in the total margin calculation, credit will be given*

11.

New freehold commercial premises would be subject to standard-rate VAT so the purchase price would be £300,000 x 120% = £360,000 1

SDLT is charged on the VAT inclusive amount:

| | | | |
|---|---|---|---|
| £0 - £150,000 | 0% | | |
| £150,000 - £250,000 | 2% | 2,000 | 1 |
| £250,000 - £360,000 | 5% | 5,500 | 1 |
| Total payable | | £7,500 | |

The residential property is either zero rated or exempt for VAT purposes so the price subject to SDLT is £180,000. However this is a second residential property and so an extra 3% charge applies.

| | | | |
|---|---|---|---|
| £0 - £125,000 | 0% | | |
| £125,000 - £180,000 | 2% | 1,100 | 1 |
| 2nd property charge | 3% | 5,400 | 1 |
| Total payable | | £6,500 | |

*No explanations are required as candidates were asked to calculate only.*
*Using 3%/5% in the above calculation rather than showing the 3% calculated separately is acceptable*

12.

On the exchange of shares there are two transfers subject to stamp duty (SD). The equality money element of the consideration has no impact on the stamp duty charge. 1

Cath will pay SD on the value of the 8,000 shares in Bay Ltd (8,000 x £2.80) £22,400 1

The SD at 0.5% is rounded up to the nearest £5 giving £115 to pay 1

Art will pay SD on the value of the 10,000 shares in Pier Ltd (10,000 x £2.50) £25,000 1

The SD at 0.5% is £125 1
*Correct allocation of amount paid by Cath/Art*

*Note: This transaction can be documented as a sale of the higher value shares in consideration of the lower value shares (plus cash). Where this happens, SD is only payable by Art on the shares in Pier Ltd, so SD of £125 only would be due. Credit will be given where candidates have mentioned this and therefore not calculated SD on the Bay Ltd shares.*